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Message Text

CONFIDENTIAL

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
---------- 094743
R 071456Z APR 76
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 1668
INFO USTREASURY WASHDC

C O N F I D E N T I A L CAIRO 4607

EXDIS

E.O. 11652: GDS
TAGS: EFIN EG
SUBJ: USE OF CHASE PL 480 POUNDS FOR LENDING PURPOSES

REF: (A) STATE 06645, (B) CAIRO 4277

1. MINECON ZAKI SHAFEI IS STILL AWAY WITH THE PRESIDENT. I HAVE PREFERRED TO WAIT UNTIL HIS RETURN TO HAND HIM THE LETTER REQUESTING GOE TO PERMIT CHASE TO USE 6.5 MILLION EGYPTIAN POUNDS OF US PL 480 FUNDS ON DEPOSIT THERE TO LEND TO PRIVATE SECTOR. HEN I SAW MINFIN ABU ISMAIL TODAY, HE COMMENTED IN ANOTHER CONNECTION THAT HE IS CURRENTLY ALSO ACTING MINECON IN SHAFEI'S ABSENCE. I THEREFORE BRIEFED HIM ORALLY ON WHAT WE WILL ASK OF SHAFEI WHEN HE RETURNS.

2. ABU ISMAIL WAS CONSIDERABLY DISTRESSED. HE STATED HE HAD DISCUSSED THE SUBJECT WITH SECRETARY SIMON, WHO HAD AGREED THAT ANY SUCH PRIVATE BANK LENDING TO THE PRIVATE SECTOR WOULD HAVE AN INFLATIONARY EFFECT. HE RECALLED IT WAS HIS UNDERSTANDING THAT SECRETARY SIMON HAD DROPPED THE IDEA. I POINTED OUT I WAS NOT PRESENT FOR THE SECRETARY'S VISIT, BUT SUGGESTED THERE MUST BE SOME MISUNDERSTANDING. I HAD NOT GAINED THE IMPRESSION FROM REPORTS OF THE SECRETARY'S MEETINGS HERE OR FROM THE LATEST WASHINGTON INSTRUCTIONS THAT THERE HAD BEEN ANY AGREEMENT TO DROP THE IDEA. ON THE CONTRARY, WE CONTINUE TO BELIEVE IT WOULD HELP STIMULATE
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THE PRIVATE SECTOR.

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3. ABU ISMAIL AGAIN INSISTED ANY SUCH USE OF CHASE'S PL 480 HOLDINGS WILL HAVE AN INFLATIONARY EFFECT. HE PROFESSED ALREADY TO BE DISTURBED BY WHAT HE CALLED EXCESSIVE USE OF PUBLIC AND PRIVATE SECTOR BANKING FACILITIES.. HE WANTS TO LIMIT BANK LOANS. THERE IS NO POINT, HE ARGUED, IN MAKING ADDITIONAL CREDITS AVAILABLE WHEN THERE ARE NOT ENOUGH COMMODITIES OR SERVICES TO PURCHASE. IN ANY EVENT, THERE IS NO SHORTAGE OF EGYPTIAN POUNDS.

4. I TOLD HIM MY IMPRESSION, BASED ON DISCUSSIONS WITH AMERICAN BANKERS, THAT THE AVAILABILITY OF EGYPTIAN POUNDS IS NOT AS FREE AS HE SEEMED TO SUGGEST. I HAD HEARD VARIOUS INSTANCES OF EGYPTIAN PRIVATE ENTREPRENEURS COMPLAINING THAT THEY COULD NOT GET NEEDED POUNDS. ABU ISMAIL VEHEMENTLY DENIED THAT THIS IS SO, INSISTING THERE ARE PLENTY OF POUNDS AROUND. THIS, HE REITERATED, IS ONE OF HIS PROBLEMS. HE IS TRYING TO IMPRESS ON THE PRIVATE SECTOR THAT ANY LOAN SHOULD BE SIMPLY FOR WORKING CAPITAL, NOT FOR CAPITAL DEVELOPMENT.

5. IT IS CONTRADICTORY, HE CONTENDED, FOR THE USG TO ASK EGYPT TO ACCEPT IMF AND IBRD RECOMMENDATIONS AND AT THE SAME TIME TO URGE THAT MORE UNNEEDED POUNDS BE ALLOWED TO BE PUMPED BY CHASE INTO A MARKET THAT IS ALREADY FLUSH WITH LOCAL CURRENCY, BUT TIGHT ON AVAILABLE COMMODITIES.

6. ABU ISMAIL STRESSED HE WAS EXPRESSING HIS OWN VIEWS. RATHER THAN GIVE A FORMAL REPLY IN HIS CAPACITY AS ACTING MINECON, HE SUGGESTED I TALK TO ZAKI SHAFEI ABOUT OUR REQUEST. I TOLD HIM I WOULD DO SO. ABU ISMAIL MADE IT VERY CLEAR, HOWEVER, THAT HE WILL STRONGLY OPPOSED OUR PROPOSAL ON THE GROUNDS THAT IT IS DETRIMENTAL TO HIS CURRENT EFFORTS TO TIGHTEN CREDIT FACILITIES.

7. SHAFEI IS EXPECTED BACK NEXT MONDAY. I WILL ARRANGE TO SEE HIM SHORTLY THEREAFTER TO PRESENT LETTER REQUESTING AUTHORITY FOR CHASE TO USE THE 6.5 MILLION POUNDS FOR LOANS TO PRIVATE SECTOR.
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Automatic Decaptioning: Z
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Draft Date: 07 APR 1976
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